UNIVERSITY OF TORONTO

FINANCIAL SERVICES

TO: Pension Committee

SPONSOR: Sheila Brown
CONTACT INFO: 416-978-2065, sheila.brown@utoronto.ca
DATE: May 15, 2013 for June 5, 2013

AGENDA ITEM: 2

ITEM IDENTIFICATION:

Financial Services Commission of Ontario letter and response re OISE Pension Plan

JURISDICTIONAL INFORMATION:

The Pension Committee has responsibility for oversight of matters affecting the administration of the University's two registered pension plans: the University of Toronto Pension Plan and the University of Toronto (OISE) Pension Plan.

PREVIOUS ACTION TAKEN:

-

HIGHLIGHTS:

During Fall/Winter 2012, the Financial Services Commission of Ontario undertook an examination of the OISE Pension Plan. Their findings, and the University's response, are attached. The changes that they have identified with respect to the Statement of Investment Policies and Procedures (SIP&P) have been reflected in the updated SIP&P which is before the Pension Committee for approval at the meeting of June 5, 2013.

The University's response emphasizes that the University of Toronto operates its two registered pension plans essentially as one plan and to that end has harmonized a number of administrative aspects including terms of benefits and therefore, we do not manage these plans separately. It also notes that we plan to merge the OISE plan into the U of T plan.

For the Committee's information, it is important to note that the plan to merge these plans, and its timing, are being affected by delays in issuance of revised legislation/regulation regarding pension plan mergers. We have been waiting for some time for that matter to be resolved before we proceed to merge these plans.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

-

RECOMMENDATION:

For information.

Financial Services Commission of Ontario

Pension Plans Branch
5160 Yonge Street, 4th Floor
P.O. Box 85
Toronto ON M2N 6L9

Telephone: (416) 226-7776
Facsimile: (416) 226-7777

Commission des services financiers de l'Ontario

Direction des régimes de retraite
5160 rue Yonge, 4e étage
Boite 85
Toronto ON M2N 6L9

Téléphone: (416) 226-7776
Télécopieur: (416) 226-7777

Ontario

Registration Number: 353854

April 2, 2013

Mr. Pierre Piché,
Controller and Director of Financial Services,
University of Toronto,
215 Huron St. 2nd Floor
Toronto, ON M5S 1A2

Dear Mr. Piché:

Re: Pension Plan for the University Of Toronto (OISE) Pension Plan ("the Plan")

The examination of the above named pension plan was initiated on January 21, 2013 and completed on January 24, 2013. The purpose of the examination was to determine if the Plan was being administered in accordance with Ontario's Pension Benefits Act, R.S.O. 1990 ("the Act") and Regulation 909, R.R.O., 1990 ("the Regulation") and the legislation of other relevant jurisdictions. The examination was limited in scope and was not an audit. Only certain areas were reviewed to determine compliance.

Our findings were discussed during our exit meeting on January 24, 2013. On February 22, 2012 there was an additional meeting with Mr. Bill Moriarty and Mr. John Hsu of University of Toronto Asset Management (UTAM). They met with Normand Lépine and Jay Jiang of our office to discuss certain investment concerns.

1. The latest version of the Statement of Investment Policy and Goals (SIP&G) for the Plan was approved at Pension Committee meeting #7 on March 28, 2012. We have a number of concerns with the SIP&G and how it complies with section 78 of the Regulation and Subsection 7.1(1) of Canada's Pension Benefits Standards Regulations, 1985 ("PBSR").

   We note that the document approved by the Committee is a SIP&G, while section 78 of the Regulation requires a plan to adopt a "Statement of Investment Policies and Procedures" (SIP&P) that meets the requirements of subsection 7.1(1) of the PBSR. The Regulation was amended for the current SIP&P requirement effective January 1, 2001.

   The Pension Committee is required to comply with Section 78 of the Regulation and Subsection 7.1(1) of the PBSR.

2. The SIP&G describes the nature of the liabilities of the two pension plans participating in the Pension Master Trust (PMT). It appears that the OISE plan is much more mature with only 30% active membership compared to the other participating plan whose 54% of members are still active. Section 78 of the Regulation applies to each of the two registered pension plans disticnctly. The Pension Committee is required to adopt a SIP&P for each participating plan separately. It is possible to adopt the same policy for each plan in a single document. However, it should clearly state that the Pension Committee considers the SIP&P suitable to the OISE plan despite its more mature membership.

   The Pension Committee is required to comply with Section 78 of the Regulation and Subsection 7.1(1) of the PBSR.

3. Section 7.1(1)(a) of the PBSR requires a SIP&P to disclose "categories of investments and loans, including derivatives, options and futures." The document adopted by the Pension Committee includes only "a non-exhaustive list of the assets and investment strategies in which UTAM does or could invest." The PBSR requirement is generally interpreted as requiring an exhaustive list of categories of permissible investments. Some categories of investment found in the PMT (private equities, hedge funds and real assets) are not included in the non-exhaustive list provided. However, we found reference to these categories in the section of the SIP&G dealing with the valuation of investments not regularly traded.

   The Pension Committee is required to comply with subsection 7.1(1)(a) of the PBSR.

4. The document approved by the Pension Committee includes a 75 basis-point Risk Limit in excess of the Reference Portfolio. This is an important part of the policy since the asset mix is broadly defined (eg. the equity component includes both public and private equities). The detail of the Risk Limit was described to us in a recent meeting with UTAM.

   We recommend that Risk Limit be expanded further in the SIP&P.

5. A question regarding the level of Investment Management Fees (IMF) paid by the University of Toronto plans was previously raised by our office and discussed at Pension Committee meeting #3 on June 10, 2011. In their response to us dated June 27, 2011, the University of Toronto explained that the high level of fees was attributed to alternative investment strategies which offer superior expected long-term risk adjusted return but also have a higher fee structure. This was reiterated by UTAM during our recent meeting. We believe this response reasonably explains the overall high level of IMF paid by University of Toronto Plans compared to other Ontario-registered pension plans of similar size.

6. We have concerns regarding the high level in IMF paid by the OISE plan. It appears that the plan paid $1.2 million in IMF in the year ending June 30, 2012 which represents 158 basis points of the opening net assets available for benefits. In their response to our initial comments following the OISE plan examination, UTAM explained that the IMF level of the PMT for year ending June 30, 2012 was 93 basis points using the same methodology that we used for the OISE plan. Our concern is that the OISE plan was overcharged for the

portion of the IMF attributed to their share of the PMT. The 65 basis point difference represents approximately $495,000. IMF paid by the PMT should be allocated fairly among the participating plans.

We recommend that the Pension Committee review the fee allocation with UTAM.

7. Given the aforementioned concerns, we recommend that a thorough review of the SIP&P be performed by an independent third party.

8. Plan member information booklets were not current. We note that the actuary for the Plan is in the process of re-stating the Plan document which should be completed by March 31, 2013. Once that is complete, it will be necessary to update member information booklets to to reflect current Plan terms.

9. On the Annual Benefit Statement to members we noted some missing items:

   - Subsection 40(1) of the Regulation requires disclosure of the name of the person recorded as the member's spouse. We note that the disclosure of spousal information was noted on the death, termination and retirement statements we reviewed.

   - Subsection 40(1)(p)(vi) of the Regulation requires an explanation of the transfer ratio and how it relates to the level of funding of members' benefits.

   Compliance with subsection 40(1) of the Regulation is required.

10. A member's termination statement reviewed did not mention the Plan's transfer ratio as required by Regulation 41(1)(o)(i).

    Compliance with subsection 40(1) of the Regulation is required.

We would like to thank you, Michael Ferguson, Richard Ashmore, and Kumar Sukumaran for the assistance and co-operation during our visit, and also UTAM's representatives for meeting with Normand Lépine and Jay Jiang of our office.

We would appreciate receiving a response to this letter by June 2, 2012 in the following format.

Requirements / Recommendations	Action Plan Steps	Planned Completion Date

Yours truly,

Mark Lucyk, CFA
Technical Consultant, Pension Compliance

May 15, 2013

Mr. Mark Lucyk, CFA
Technical Consultant, Pension Compliance
Financial Services Commission of Ontario
Pension Plans Branch
5160 Yonge Street, 4th Floor
Toronto, Ontario
M2N 6L9

Dear Mr. Lucyk

Re: Your letter of April 2, 2013 – Registration Number: 353854

The following is a response to your April 2, 2013 letter concerning the University of Toronto (OISE) Pension Plan ("the Plan"). I addressed each recommendation in the same order as noted in your letter and have identified a plan of action and a plan completion date as you suggested.

You should note that the University of Toronto operates its two registered pension plans essentially as one plan and to that end has harmonized a number of administrative aspects including terms of benefits and therefore, we do not manage these plans separately. I should also point out that we have the intention of merging the Plan with the University of Toronto pension plan at the appropriate time.

Recommendation 1:

The Statement of Investment Policy and Goals will be referred to as The Statement of Investment Policy and Procedures. This change is anticipated to be made by June 5, 2013 when the document is expected to be approved by the Pension Committee.

Recommendation 2:

The Statement of Investment Policy and Procedures will be amended to make it clear that the SIP&P is suitable to the Plan despite its more mature membership. This change is anticipated to be made by June 5, 2013 when the document is expected to be approved by the Pension Committee.

Recommendation 3:

The Statement of Investment Policy and Procedures will be amended to more clearly identify the list of categories of permissible investments. This change is anticipated to be made by June 5, 2013 when the document is expected to be approved by the Pension Committee.

Recommendation 4:

The Statement of Investment Policy and Procedures will be amended to further describe the Risk Limit reported to the Pension Committee. This change is anticipated to be made by June 5, 2013 when the document is expected to be approved by the Pension Committee.

Recommendation 5:

No action required.

Recommendation 6:

Effective July 1, 2012, the investment management fee allocation is being reviewed annually and is based on the Plan's proportionate value of assets held in the Master Trust. The Pension Committee annually approves the Plan's financial statements which include the amount allocated as investment management fees.

Recommendation 7:

The Statement of Investment Policy and Procedures is periodically compared by the University with other plans' SIP&P. It is also reviewed by our actuaries and approved by the Pension Committee and therefore we see no benefit to have an independent third party review.

Recommendation 8:

The Plan document has been re-stated as of July 1, 2012 to incorporate all past amendments and to reflect the increases in member contribution rates through to July 1, 2014. The restatement is being filed with FSCO. Plan member information booklets will be updated to reflect the current Plan terms by December 31, 2013.

Recommendation 9:

Effective with the plan year ended June 30, 2013 the Annual Benefit Statements will disclose the name of the person recorded as the member's spouse and will include an explanation of the transfer ratio and how it relates to the level of funding of members' benefits. We note that it is not simply a matter of adding the transfer ratio to the statement since there is little risk that the University of Toronto will become insolvent and as such the relevance of this ratio has to be properly explained to members.

Recommendation 10:

On the matter of the transfer ratio on the termination statement, we are seeking clarification from FSCO on this requirement. The section you reference addresses the situation where the plan is not paying out the full commuted value. That is not the case for the OISE Pension Plan since we have received approval under Regulation 19 to pay out the full commuted value. Once we receive the clarification from FSCO we will make the appropriate changes to the termination statement.

Sincerely,

Pierre Gilles Piché, CPA, CA, MEd
Controller and Director of Financial Services,
Financial Services Department,
University of Toronto